

# European Communities

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EUROPEAN PARLIAMENT

## Working Documents

1978 - 1979

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15 March 1978

DOCUMENT 3/78

### Report

drawn up on behalf of the Committee on Budgets  
on the /European Parliament's guidelines for the  
budgetary and financial policy of the European  
Communities in 1979

(Part I: General budgetary and financial policy  
problems, institutional matters and budget law  
questions connected with the revenue section)

Rapporteur: Mr M. BANGEMANN

PE 52.571/fin.



At its meeting of 1 March 1978 the Committee on Budgets appointed Mr Bangemann rapporteur on the European Parliament's guidelines for the budgetary and financial policy of the European Communities in 1979.

It decided to draw up an initial report for submission to Parliament before the Council adopted a position on the Commission's communication on an overall assessment of Community budgetary problems in 1979.

The Committee on Budgets considered the draft report at its meetings of 1 and 13 March 1978, approving it unanimously with one abstention at the latter meeting.

Present: Mr Lange, chairman; Mr Aigner, vice-chairman, Mr Bangemann, vice-chairman and rapporteur, Mr Alber, Lord Bruce of Donington, Mrs Dahlerup, Mr Dalyell, Mr Dankert, Mr F. Hansen, Mr Meintz, Mr H. W. Müller, Mr Ripamonti, Mr Schreiber, Mr Shaw, Mr Spinelli and Mr Würtz.

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The Committee on Budgets hereby submits to the European Parliament the following motion for a resolution, together with explanatory statement:

MOTION FOR A RESOLUTION

on the European Parliament's guidelines for the budgetary and financial policy of the European Communities in 1979

(Part I: General budgetary and financial policy problems, institutional matters and budget law questions connected with the revenue section)

The European Parliament,

- having regard to the report of the Committee on Budgets (Doc. 3/78 ),

- (a) conscious of its responsibilities in respect of the general budget of the European Communities,
  - (b) desiring to put forward its political views on the main budgetary and financial issues of the financial year 1979 at this preliminary stage in the budgetary procedure, thus making a constructive contribution to work on the meeting between Parliament's delegation and the Joint Council of Finance Ministers and Foreign Ministers,
  - (c) intending - in supplementation of this resolution, and at a later date - also to adopt guidelines on sectoral expenditure with an eye to the preparation of the preliminary draft budget;
1. Adopts the premise that - on the basis of the experience of recent financial years - even greater emphasis must be placed on the political nature of the budget of the European Communities;

I. General problems of budgetary and financial policy

2. Considers it absolutely essential, therefore, that efforts should be made to solve the problems indicated below - if need be, in the framework of a conciliation procedure;

The Community's borrowing policy

3. Calls for a coherent Community borrowing policy, approved and controlled by the budgetary authority;

4. Recognizes the role of the EIB as an instrument of an effective Community borrowing policy but takes the view that political responsibility for this policy must remain with the Commission and the budgetary authority (Council and European Parliament);
5. Advocates, once again, the unequivocal budgetization of borrowing policy in a special account which must form part of the annual budget and show the scale of borrowing and lending each year; expenditure on Community sureties or guarantees must also be entered in this section;

#### The European Unit of Account

6. Calls for measures to ensure that the EUA is used not only as an accounting instrument in all sectors, but increasingly for the Community's payments, so that it can gradually come to serve as a parallel currency;

#### The budgetization of the European Development Fund

7. Assumes that the need for the budgetization of the fifth European Development Fund is accepted by all the institutions and that appropriate measures will be taken as regards revenue and budgetary presentation; expects the Commission to submit a report on this matter, containing practical proposals for solutions;

#### Commitment authorizations and multiyear budgeting

8. Considers it desirable that the presentation of multiyear commitment authorizations should be simplified in order to clarify entries for multiyear budgeting, and in particular their relationship to the Triennial Financial Estimates; however, this must be done in a manner which does not detract from the annuality of the budget and thus the powers conferred on the European Parliament by the Treaty;

#### Budgetary nomenclature

9. Calls for the introduction of a simplified, transparent and more easily verifiable research budget, which is capable of showing the overall costs of research projects, permits a more flexible management of research measures, and brings the organisation of expenditure into line with that of the budget;

#### Budget transparency

10. Calls on the Commission to make vigorous efforts to integrate decentralized bodies into its administrative machinery in order to ensure budgetary transparency and adequate scope for budgetary control; in an intermediate stage, the budgetary documents of these bodies should at least be forwarded at the same time as the other general budgetary documents;

## II. Institutional problems

### The executive power of the Commission

11. Calls for the initiation of a conciliation procedure, as promised by the Council during the procedure for establishing the 1978 budget in order to clarify the matter of institutional spheres of competence in connection with the Commission's unlimited power, under Article 205 of the EEC Treaty, in respect of the implementation of the budget, and to settle all related problems, in particular
  - the need for legislation in respect of the use of certain budgetary appropriations, which also covers the question of the legal nature of the 'remarks' column,
  - the management committee procedure, and
  - the freezing of appropriations on the line;

### Budgetary and legislative powers

12. Believes that, at present, an artificial distinction is drawn between budgetary and legislative powers, which can only be eliminated by increased parliamentary participation in legislative activities and thus calls for a new system of cooperation between Parliament and the Council; the increased use of the conciliation procedure constitutes a first step in this direction;

## III. Revenue

### Sixth VAT directive

13. Draws attention to the considerable importance it has attached in the last 10 years to the use of value added tax as a source of own resources, and calls upon those Member States which have not yet taken action, to adopt without delay all the measures necessary to ensure that value added tax is used as a basis in the 1979 budgetary procedure and that difficulties similar to those caused by the return to GNP assessments for the 1978 budget are avoided;

### Special forms of revenue

14. Points out that, regardless of whether they represent own resources within the meaning of the decision of 21 April 1970, parafiscal forms of revenue must be incorporated in the budget structure by the budgetary authority within the limits of its powers;
15. Rejects the existence in the case of the co-responsibility levy in the milk sector, monetary compensatory amounts and possibly the sugar/isoglucose sector, of a revenue system that cannot ensure the collection of resources for the Community;

#### Financing of the ECSC budget

16. Cannot accept that customs revenue in the ECSC sector is not counted as Community revenue and therefore calls for appropriate decisions;

#### Future financing options

17. Takes the view that the limit of 1% of the basis of assessment for value added tax will be reached merely as a result of the normal development of Community policy and the probable budgetization of additional Community activities, and that proposals must therefore be submitted for further methods of financing the Community's budget;

#### IV. Expenditure

##### Sectoral guidelines

18. Will decide on the sectoral guidelines, which are to be regarded as guiding principles for the preparation of the preliminary draft, only after submission of the opinions of the parliamentary committees and with account taken of the Commission's guidelines, and will submit Part II of this report on this subject;

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19. Takes the view that the guidelines, which relate both to the general problems of budgetary and financial policy and to revenue and expenditure policy for 1979, must form the subject of full discussions between the two institutions forming the budgetary authority and must be adopted jointly by these institutions.
20. Instructs its President to forward this resolution and the report of its committee to the Council and Commission of the European Communities.



EXPLANATORY STATEMENTA. Horizontal problemsI. Preliminary stage of the budgetary procedure

1. The Joint Council of the European Finance and Foreign Ministers will be meeting on 3 April 1978 to discuss the guidelines for the budgetary and financial policy of the European Communities in 1979 on the basis of the Commission's communication to the Council and Parliament on the overall assessment of the Community's budgetary problems.
2. Parliament should participate even at this preliminary stage of the budgetary procedure. A delegation from the European Parliament participates in the framework of cooperation within the budgetary authority, since the preliminary stage forms part of the normal budgetary procedure, although this is not expressly stated in the Treaty.
3. Before a delegation from the European Parliament can participate, it must receive a mandate. Part I of this report has therefore been submitted at this early stage. It is designed to spell out the broad lines of the technical and legal questions in the budgetary field which the delegation will be discussing with the Council.
4. For this reason no account has yet been taken of the Commission's communication to the Joint Council of Foreign and Finance Ministers and to the European Parliament, which covers most of the major items on the expenditure side. In addition the communication was only recently forwarded to Parliament and must be carefully discussed by the relevant parliamentary committees. This report thus only deals with the guidelines on the 'horizontal' problems connected with the technical and legal aspects of the budget and institutional questions that have emerged from opinions expressed by Parliament in the past and from votes taken during last year's budgetary procedure.
5. The European Parliament will be stating its views on the Commission's communication and thus on the expenditure and sectoral problems involved during the April part-session on the basis of Part II of this report.

## II. Borrowing policy

6. Community policy already includes the following borrowing activities:

- ECSC loans pursuant to Articles 49 and 51 of the ECSC Treaty,
- Community loans contracted in 1975 pursuant to Article 235 of the EEC Treaty,
- Euratom loans contracted in 1977 pursuant to Article 172 of the EAEC Treaty,
- EIB loans.

7. In February 1978 the Council submitted to Parliament for its opinion the Commission's proposal for a decision empowering the Commission to issue loans for the purpose of promoting investment within the Community (Doc. 546/77). The Committee on Budgets will be drawing up a report on this proposal.

8. The proposed decision would empower the Commission to issue loans on behalf of the EEC (Article 1). The Council would activate each tranche and fix general guidelines for its use. The Commission would determine the eligibility of projects (Article 2).

The funds borrowed by the Commission would be deposited with the EIB for investment before they are used (Article 4).

The Bank would receive a general mandate from the Commission for all transactions required in connection with the administration of lending operations and the actual granting of loans. The general mandate would be embodied in a cooperation agreement between the Bank and Commission (Article 5).

The Commission would be required periodically to inform the European Parliament of its borrowing and lending policy and to submit an annual review of its borrowing policy together with the budget estimates (Article 6).

9. The existing possibilities for issuing loans and the latest proposal differ in many respects and do not meet the requirements that Parliament makes of a coordinated borrowing policy:

- prior participation of Parliament with respect to the political objectives to be achieved with loans issued,

- political and budgetary control of the funds resulting from the borrowing policy,
- participation in the establishment of the political criteria for the granting of loans,
- entry of borrowings and lendings in a special Community account broken down into revenue and expenditure.

10. The Community institutions concerned should therefore seek to achieve a situation in which the Commission is responsible for the political aspects of the borrowing policy and the EIB for the technical implementation.

11. Loans issued should be entered in a special account and thus, as far as possible, become subject to the budgetary rules. The Commission's proposal that it should submit reviews and statements does not seem adequate. Only if all such loans are entered in the budget - as is the case with Community loans - will Parliament be able to accomplish the financial control with which it has been entrusted.

### III. The European Unit of Account

12. The change to the EUA was one of the most important reforms implemented during the establishment of the 1978 budget. It is a major step forward for the budget to be expressed in an up-to-date unit of value.

13. A large part of the Community budget, that devoted to the EAGGF, is not yet expressed in EUA. The European Parliament has repeatedly called for the use of the EUA for the whole budget. It should be introduced in 1979 for the Guidance Section of the EAGGF at least. The consideration of the use of the EUA for the Guarantee Section of the EAGGF should be concluded and practical proposals put forward.

14. It must not be overlooked, however, that this merely means using the EUA as an accounting instrument. In a second stage it should also be extended to the Community's payments. The more extensively the EUA is used as an accounting and payment medium, the more effectively will it act as a link in Community policy and as an integrating force.

15. The overriding objective of monetary union must not be forgotten. The progressive introduction of the EUA will help in the achievement of this objective.

#### IV. Budgetization of the European Development Fund

16. The 1978 budget includes funds for financial cooperation with third countries, these funds being broken down by country in Title 9 under a new Chapter 96, 'Cooperation with non-member countries'.

17. The EDF has not yet been included in the budget. It would be difficult to propose its inclusion as long as the current Lomé Convention remains in force. The Commission has, however, repeatedly confirmed its aim of including the fifth EDF in the budget. As the Council rejected this in the case of the fourth EDF, it should be asked to give a clear assurance that the EDF will be budgetized this financial year.

18. The inclusion of the EDF as Chapters 90 and 91 of the budget should not be seen merely as a matter of form. It will serve a political purpose only if it is accompanied by Parliament's involvement in line with its general budgetary powers. An overall allocation previously fixed by the European Council, as is the case with the Regional Fund, is hardly likely to satisfy Parliament's wishes.

#### V. Commitment authorizations and multiyear financial estimates

19. On 21 April 1970 (OJ No. L 94 of 28 April 1970, p.23) the Council took the following decision:

'In order to place the budget of the Communities within a framework of forward planning for several years, the Commission shall, each year, ... draw up a financial forecast for the three subsequent financial years, showing the financial implications for the Community resulting from regulations and decisions in force and from proposals submitted by the Commission to the Council.

The Council shall, after receiving the opinion of the European Parliament, study and assess the forecast.'

The European Parliament has in past years called for an increasingly political orientation of the forecast. The Commission has only partly agreed to these requests.

20. The development of the triennial estimates has been accompanied by the incorporation of commitment authorizations in the budget. They are to be seen as a parallel to the triennial estimates and must be closely

linked with them. The Commission should submit proposals for making this link even more distinct. The multiyear commitment authorizations contained in the budget should be set out in detail in the estimates in order to demonstrate the multiyear character of the Community's policy on expenditure.

21. At the same time, a clear distinction should be made between the annuality of the budget and payment authorizations on the one hand and the multiyear nature of the forecast and commitment authorizations on the other. The former are compulsory, the latter indicative, i.e. they may be changed during the financial planning procedure. The annuality of the budget must not be affected by the financial planning, since Parliament's budgetary and control powers under the Treaty are based on annuality. As long as Parliament is not more deeply involved in financial planning, there must be no shift in emphasis towards commitment authorizations and thus towards multiyear financial estimates.

#### VI. Budgetary nomenclature

22. The budgetary nomenclature for the research budget of the Joint Research Centre (JRC) in Chapter 33 is in need of improvement. The management of research and investment expenditure must meet three requirements:

- It must reveal the overall cost of a research project.
- It should permit the effective and adaptable administration of research activities, and it should be possible at all times to establish what funds are required (for staff, investments, contracts, etc).
- The budgetary nomenclature should tally with the structure of expenditure, which is derived from the organization of research and from the targets pursued.

23. If this is to be achieved, a simplified, transparent and more easily verifiable research budget must be introduced. The budgetary nomenclature now used in Chapter 33, which covers 18 pages, does not meet these requirements. Chapter 33 is difficult to understand and is lacking in budgetary transparency.

A new form must therefore be sought for Chapter 33. The Committee on Budgets will submit a model that might meet the requirements described above.

24. A similar simplified and more transparent budgetary nomenclature should also be sought for the Regional Fund.

#### VII. Budget transparency

25. The European Parliament has repeatedly stated<sup>1</sup> that there must be stricter controls over the budgetary conduct of decentralized services. The expenditure on these 'satellites' must remain transparent in the budget. Control over these bodies must not be jeopardized.

26. The Community facilities with limited administrative autonomy included in the budget meet certain minimum requirements. Their control by the budget is adequate, if not satisfactory. The bodies concerned are

- the Computer Centre
- the Statistical Office
- the Community Business Cooperation Centre
- the Joint Research Centre
- the Office for Publications.

27. The situation differs in the case of the Community bodies having administrative autonomy and financed entirely by subsidies under the budget:

- Institution for European Economic Research and Analysis
- European Centre for the Development of Vocational Training
- Foundation for the Improvement of Living and Working Conditions
- Supply Agency
- European Cooperation Association.

28. These and other bodies set up by the Community, such as

- the European Schools
- the European University Institute in Florence
- the planned European Foundation and

<sup>1</sup>see COINTAT Report, Doc. 119/77

- the planned Export Bank,  
must be assessed separately this year.

29. The Commission has given an assurance that it will submit a proposal for the transformation of the European Cooperation Association into a European agency. The European Parliament looks forward to receiving this proposal and will take this legal transformation as a model when examining the budgetary and administrative integration of the other decentralized bodies of the Community.

## B. The institutional problems

### I. The executive powers of the Commission

30. During the 1978 budget procedure the Council acknowledged that the implementation of the Communities' budget still raises a number of unsolved problems and gave an assurance that conciliation would take place on this subject early in 1978. Parliament hopes this meeting will be held before the actual budgetary procedure begins so that the latter is not encumbered with technical questions.

31. The first paragraph of Article 205 of the EEC Treaty reads:

'The Commission shall implement the budget, in accordance with the provisions of the regulations made pursuant to Article 209, on its own responsibility and within the limits of the appropriations.'

The Commission has repeatedly faced the problem of deciding in what cases it may proceed to use certain budgetary funds without there being a need for a legislative act or the express approval of the Council.

For the European Parliament, as part of the budgetary authority, it is difficult to imagine that the use of appropriations should depend on a legislative act in cases where the 'remarks' column of the budget adequately describes the content, purpose and extent of the measures concerned. Where the budgetary authority has already outlined the action to be taken with sufficient accuracy in its budgetary decision, there is no need for the legislative body to be involved again. If this does happen, it is tantamount to interference by the Council in the Commission's executive power. Action by the legislative authority after the adoption of the budget is acceptable only if it is a question of satisfying the requirement of constitutional specificity of the implementation of the budget and of ruling out general authorizations through the budget.

In this way criteria might be found for drawing a line between the executive and legislative authorities.

32. Article 16 of the Financial Regulation, the interpretation of which has yet to be settled, must therefore be understood as explained in the statement for the Council minutes: "the remarks may include conditions for effecting expenditure as approved by the designation of the article or item concerned."

33. A criterion for drawing a distinction between the executive and legislative authorities would also seem possible in the case of decisions on individual cases: the executive takes individual decisions, while the legislative authority drafts general rules. The judgment of the European Court of Justice in Case 25/70 logically allows the management committee procedure to be applied only to implementing provisions (point 6 of the judgment). There is thus no room for individual Council decisions in the implementation of the budget. Otherwise the right to approve the budget would be devalued since technical budgetary decisions would be robbed of their general binding force by the executive decision of the legislative authority.

34. In the same context reference should be made to the management committee procedure. The Committee on Budgets has already expressed its opposition to the option open to the Council to have the final say on executive measures in certain cases<sup>1</sup>.

35. A somewhat different institutional problem is raised by the freezing of appropriations on the line. As one half of the budgetary authority, the European Parliament feels that it may in certain cases freeze appropriations on the line during the budgetary procedure. The budgetary authority has the more extensive right of approving the budget, and it must consequently also have the weaker right of provisionally freezing and releasing appropriations, without this being expressly stated in the relevant legislation. It would appear advisable to find a solution to this problem that is accepted by all the institutions.

## II. Budgetary and legislative powers

36. Originally the European Parliament had no budgetary powers, but merely the right to be consulted in the legislative sphere. This did not create any problems, because the Council held most of the decision-making power. With the Treaty amendments Parliament has become part of the budgetary authority; it has genuine budgetary powers. There has been no comparable formal change in the legislative field. This leads to tension, which detracts from the efficiency of Community activities. The Council and Parliament face the following difficulty:

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<sup>1</sup> AIGNER opinion for the Legal Affairs Committee (PE 47.932)



Should the political desire for greater budgetary powers for the European Parliament be fulfilled, legislation enacted by the Council must not prejudice budgetary decisions, but follow them as regards their financial effect. Otherwise the budget would be a bookkeeping exercise in implementation of Council decisions. That was not the intention when the budgetary powers were extended.

From this it can be concluded that accurate financial data should not be included in regulations. However, in certain circumstances it may be expedient for financial data to be given in regulations. The distinction drawn between financial data in the budget and regulations without financial data in the legislative procedure would appear to be increasingly artificial.

37. Close approximation of the two areas, budgetary and legislative powers, must therefore be achieved. This can be done in an intermediate phase by making full use of the conciliation procedure.

### C. Revenue

#### I. The application of the Sixth VAT Directive

38. The European Parliament delivered its opinion on draft amending budget No. 1 for the 1978 financial year at its February part-session. This amending budget was submitted because the provisions establishing the uniform basis of assessment for VAT were not being applied in at least three Member States on 1 January 1978. Parliament expressed its regret at the failure by Member States to take the necessary action early enough for the Community's VAT directive to enter into force on 1 January 1978<sup>1</sup>.

39. When the 1978 budget was being drawn up, it was assumed that expenditure would be financed not only from customs duties and agricultural levies but also from own resources derived from value added tax, since the Sixth Directive, No. 77/388/EEC, of the Council of 17 May 1977 was to enter into force on 1 January 1978.

40. It transpired, however, that only two Member States had been able to adapt their legislation to this directive before 1 January 1978.

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<sup>1</sup> Resolution of 15 February 1978 on the basis of the SHAW report on draft amending budget No. 1 of the European Communities for the 1978 financial year (Doc. 547/77)

Consequently, not even the partial application of the provisions of Article 4(2) of the Council's decision of 21 April 1970 on the replacement of financial contributions from the Member States by the Communities' own resources was possible.

The revenue side of the budget adopted on 21 December 1977 did not therefore comply with the provisions of the decision of 21 April 1970.

41. For this reason the Commission and Council have based draft amending budget No. 1 on Article 4(3) of the abovementioned decision. This fixes the financial contribution of each Member State to the budget of the Communities according to the proportion of its gross national product to the sum total of the gross national products of the Member States, which contrasts with Article 4(2), in conjunction with the second subparagraph of Article 4(1), whereby the balance is covered by revenue accruing from value added tax.

42. The consequences of these different methods of calculation are by no means theoretical.

The contribution of a Member State varies by almost 140 m EUA, depending on whether it is calculated on the basis of GNP or value added tax.

The uncertainty caused by a legal situation of this kind can but have a politically negative effect.

43. The European Parliament's debates in February concentrated primarily on the interpretation of the last sentence of Article 4(3), which states that the derogation (calculation on the basis of GNP) shall cease to be effective as soon as the conditions laid down in paragraphs 1 or 2 (application in at least three Member States) are fulfilled.

The conclusion to be drawn from the logic of the decision of 21 April 1970, which only refers to periods starting at the beginning of a financial year, was that the ruling did not come into force until the beginning of the financial year immediately following the year in which the Sixth Directive entered into force in at least three Member States.

44. As the European Parliament has already urged, the Member States should therefore take all the necessary steps to ensure that in the case of the 1979 budget they are not again compelled

- to resort to the GNP calculation and
- to face the associated difficult problems of interpreting the decision in financial contributions.

## II. Special forms of revenue

45. The following parafiscal form of revenue has joined the conventional forms (agricultural levies, compensatory amounts, sugar levies, duties under the Common Customs Tariff) referred to in the decision of 21 April 1970 on the replacement of financial contributions from Member States by the Communities' own resources:

- the co-responsibility levy in the milk sector, which is at present entered in the expenditure section of the budget as a negative item of expenditure.

46. Reference must also be made in this context to special methods of raising revenue which are already being applied or have been proposed

- following difficulties with the interpretation of the Accession Treaty and
- to meet the requirements of the ECSC budget.

47. The principle of the universality of the budget requires, however, that

- all revenue should be entered in the budget,
- revenue should be used for all Community activities and not allocated to specific sectors and
- procedures other than those provided for in the Treaties for raising funds should not be used.

48. Questionable developments in recent times lead to the conclusion that legislative steps must be taken in connection with the budget to ensure that

- the co-responsibility levy in the milk sector,
- the monetary compensatory amounts and
- revenue accruing following the proposed amendment to Regulation No. 3330/74 on the common organization of the market in sugar and the proposed regulation amending Regulation No. 1111/77 laying down common provisions for isoglucose (Doc. 422/77)

are in fact collected for the Community in all Member States.

The last two of the abovementioned sources of revenue represent own resources, and it would be particularly questionable if a Member State could arbitrarily cease to collect such revenue for the Community.

## III. ECSC budget

49. The ECSC operating budget is primarily financed from the levy on coal and steel production. Since 1972 the rate of the levy has remained unchanged at 0.29%. In order to leave the rate of the levy unchanged in the present crisis situation, the Member States are required to make a special contribution

of 32 m EUA for the 1978 financial year as a gift pursuant to the second paragraph of Article 49 of the ECSC Treaty. From a budgetary point of view this additional payment is unorthodox and should not become the rule as an additional source of Community revenue.

50. There is political justification for an additional contribution from the Member States. Under the decision of 21 April 1970 on own resources, revenue from external tariffs in the ECSC sector does not form part of own resources and is therefore left to the Member States. The Commission has announced that it intends to propose to the Council the initiation of the procedures required for the entry of ECSC duties in the ECSC budget without delay. Parliament looks forward to the implementation of this assurance.

51. Parliament also considers it important for the ECSC budget to be progressively incorporated in the general budget. From a budgetary point of view it is undesirable for the ECSC budget to exist alongside the Community budget. Ways should therefore be sought - before the Treaties are merged - of combining the two budgets.

#### IV. New financing options in addition to the 1% of the basis of VAT assessment

52. The financing of the 1978 budget was based on 0.67% of the basis of VAT assessment. The upper limit of 1% provided for in the Treaty could soon be reached. The likelihood of this happening is due to

- the natural development of the various Community activities
- the expected budgetization of the European Development Fund
- the inclusion of borrowing policy in the general budget, at least as regards the entry of guarantees, and
- the incorporation of the ECSC budget in the general budget, which should be accomplished without recourse to extra-budgetary financing procedures.

53. The European Parliament calls on the Commission and Council to consider what political steps must be taken to prevent Community policy from being blocked, which would occur if the present possibilities for financing the Community budget were exhausted for Treaty reasons.

The following options are theoretically possible:

- raising the ceiling of VAT assessment to, say, 2%,
- special levies (all to be entered in the budget),
- percentage of other, existing national taxes,
- specific new Community tax.

It would be politically desirable for the Community to receive a share of existing national taxes.

D. Expenditure

54. The Committee on Budgets will be submitting to Parliament in April a report on the major areas of expenditure and priorities for the 1979 financial year on the basis of

- the Commission's communication on the overall assessment of the Community's budgetary problems, to be submitted to Parliament shortly,
- the opinions of the other parliamentary committees,
- the meeting with the Joint Council of Foreign and Finance Ministers on 3 April 1978.

55. Before the preliminary draft is drawn up, however, it is impossible to give any figures on the future extent and growth rate of the individual areas of budgetary expenditure because the required quantified forecasts are not yet available.

Nor does prior fixing of the total volume in this way appear compatible with the budgetary procedure as set out in Article 203 of the EEC Treaty.

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56. As regards institutional cooperation, Parliament is assuming that there will be close cooperation with the other half of the budgetary authority, the goal being to achieve political agreement at all stages of the procedure for establishing the budget.

This will be possible only if preceded by a comprehensive exchange of views. The Commission should remember that there can be no privileged partners in these preparatory talks.

